PRT Forest Regeneration Income Fund

2001 Annual Report

one billion seedlings

...and growing

PRT™
Altogether a better approach™

Altogether a better approach™

Company Profile

PRT is Canada's leading forest nursery company, with 13 nurseries located from eastern Ontario to British Columbia, and a combined capacity to produce in excess of 130 million seedlings per year for our customers' reforestation requirements.

Our facilities are located near the areas where our customers operate, providing them with the benefit of local services combined with the resources and experience available through a national network of operations. Through this structure we establish close working relationships with our customers, allowing us to better understand their needs.

Our Mission statement embodies our operating philosophies:

- PRT offers nursery and related services to the forest sector.
- Our customers, employees, investors, and suppliers are our partners.
- To our customers, we commit to provide reliable service and to be innovative within a competitive price structure.
- We recognize that the success of our Company depends on our employees' achievement of success, in a safe working environment.

PRT was founded in 1988 following the privatization of several British Columbia government-owned forest nurseries. Since that time the Company's business has grown by entering new markets, and through a managed acquisition and expansion program. The Fund has continued this tradition following its initial public offering in 1997, and since then has significantly broadened its market reach and regional diversification across Canada.

The forest industry is being driven by trends toward consolidation and globalization, outsourcing, and a high focus by all stakeholders on responsible forest resource management. PRT is responding to these trends by offering our customers an integrated package of facilities and competitively priced products and services to assist in the efficient management of their plantations.

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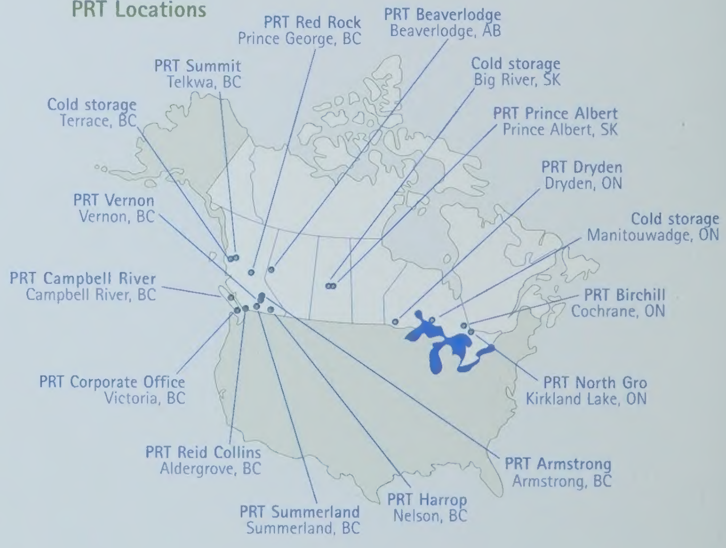
PRT Locations



PRT Forest Regeneration Income Fund
2001 Annual Report

Financial Highlights
(in millions of dollars, except per unit amounts)

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31,1999
Revenue	$ 35.2	$ 33.3	$ 26.7
Operating Earnings	8.9	8.1	7.1
Net Earnings	4.4	4.1	4.5
Per Trust Unit	0.78	0.74	0.80
Distributable Cash	5.7	5.4	5.9
Per Trust Unit	1.01	0.96	1.05
Cash Distributions per Trust Unit[1]	1.01	0.96	1.05
Cash Generated from Operations (before net change in non-cash working capital items)	8.5	7.6	7.1
Net Additions to Capital Assets, including acquisitions	2.4	5.4	6.0
Total Assets	69.9	71.0	66.4
Unitholders' Equity	46.8	47.8	50.0
Per Trust Unit	8.35	8.53	8.92
Price Range per Unit on the Toronto Stock Exchange:			
High	11.45	10.20	9.90
Low	8.60	7.00	8.25
Closing Price at December 31	11.10	8.75	8.75

[1] Including dividend declared in subsequent fiscal year on account of prior year's operations.

2001 Operating Highlights

- Increased revenues by 6%, to a record $35.2 million.
- Net earnings and distributable cash flow increased by 6%, despite higher heat energy prices.
- Implemented a comprehensive energy management program, which successfully decreased greenhouse heating costs as a percentage of revenue, overcoming a 40% jump in the price of heat energy.
- Produced over 130 million seedlings, achieving a 30% market share in our primary markets. In 2002, PRT will deliver its **one-billionth tree.**

PRT
Altogether a better approach™

The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose trust, which owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. ("PRT").

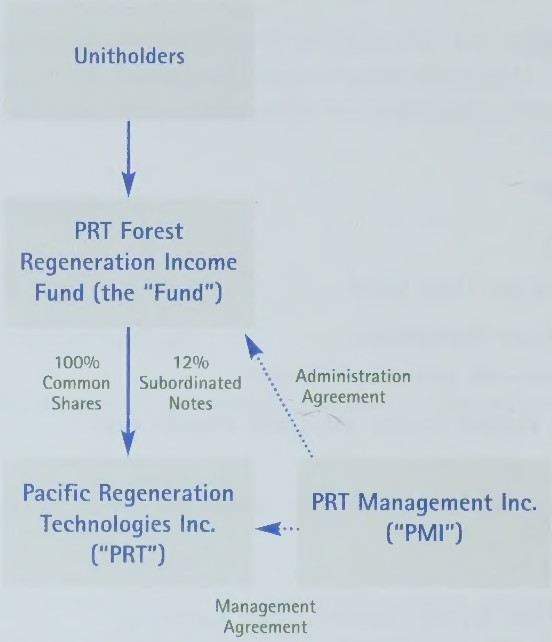
PRT is Canada's largest forest nursery company, producing over 130 million seedlings per year. Operations are conducted from 13 nurseries located from eastern Ontario through British Columbia.

Management

Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administration services and the services of the Chief Executive Officer, the President and Chief Operating Officer, and the Vice President Finance and Administration and CFO. For these services, PMI is entitled to receive a fee based upon reimbursement of its internal costs without allowance for profit. In addition, as an incentive to increase returns to Unitholders, PMI may receive incentive fees which are earned only when cash distributions to Unitholders exceed certain defined levels, as follows: 15% of the amount such cash distributions are equal to or in excess of $1.10 per Trust Unit and up to $1.25 per Trust Unit; 25% of the amount such cash distributions are in excess of $1.25 per Trust Unit and equal to or less than $1.40; and 50% of the amount such cash distributions are in excess of $1.40 per Trust Unit.

Under an Administration Agreement, PMI also provides administrative services to the Fund. No fee is payable under the Administration Agreement. The shares of PMI are owned by current and former directors, officers and employees of PMI and PRT.

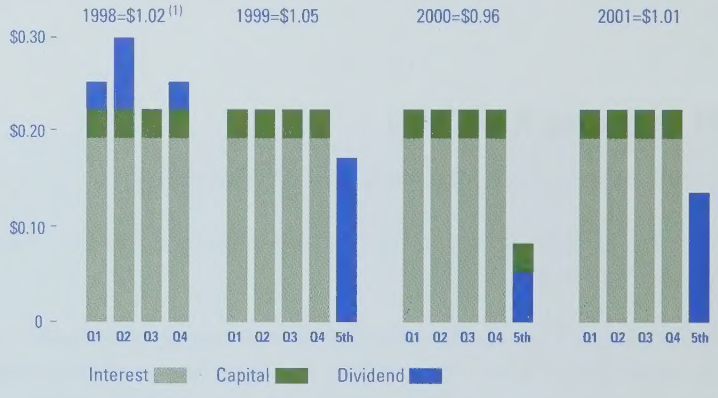
The structure is illustrated below.



Distributions

The Fund's Policy is to distribute interest received from PRT on a quarterly basis, and dividends received on account of the prior year's operations on an annual basis, less the Fund's administrative expenses.

Distribution History



(1) PRT distribution policy adjusted beginning 1999 to pay equal quarterly distributions and an annual "top up"

In determining the amount to distribute to Unitholders, PRT's Board seeks to strike a balance between funding expansion and cash distributions to Unitholders, with a view to maintaining a strong financial position. Since inception, the Fund has distributed over $25 million to Unitholders, while maintaining and significantly expanding its productive capacity and geographic base of operations.

PRT seedlings are wrapped to retain moisture.

Holding a Steady Course

In 2001, PRT stayed on course by delivering quality products and improved financial results. We did this despite Canada's ongoing softwood lumber trade dispute with the U.S., and despite difficult economic conditions.

We entered 2001 under extreme pressure from increased costs in natural gas and facing a deteriorating economic outlook for the forest sector. Yet we closed the year on firm financial ground. As if symbolizing this achievement, 2002 will mark a significant milestone for PRT, when it becomes the first container forest nursery company in North America to have grown one billion seedlings.

Adding Value to Our Core Business

During the year, PRT grew more than 130 million seedlings, including pine, spruce, hemlock, cedar, Douglas-fir, and other species in a range of container sizes. We also continued to provide our customers—primarily the lumber and pulp and paper industry—with a range of value-added products and services. Among these:

- Cold storage of seedlings
- Transportation logistics between PRT locations, and from PRT facilities to planting sites or other designated customer locations
- Bundled "grow and plant" contracts, which provide an efficient "seed-to-site" solution for our customers in Ontario
- Assistance with research and field trials, using the services of an experienced field agrologist
- Seed orchard management and seed processing services
- Enhanced performance seedling products, for example, Nutriplug™, designed to improve field performance of seedlings under challenging site conditions
- Native plant production, to ensure species diversity on reforested sites and for site rehabilitation.

From these operations, PRT's revenues for the year totalled $35.2 million, a 6% growth over 2000 and a new record for the company. Operating income for the year rose to $8.9 million, a 10.5% increase over the previous year. These significantly improved results can be attributed in large part to higher seedling block volumes, slightly higher prices for greenhouse-grown seedlings, improved crop yields, and higher non-contracted seedling sales in the fourth quarter relative to last year.

Geographic Diversification: A Key Strategy

As 2001 showed, PRT's strategy of establishing and operating a geographically diversified nursery network once again worked well for the company and for our customers.

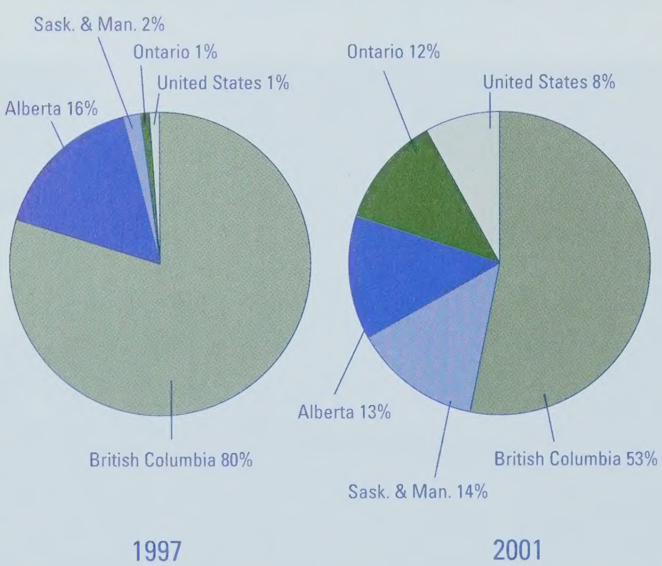
No business, in agriculture or any other sector, can claim to operate in a totally risk-free environment. However, identifying and assessing potential risks and then developing a strategy to manage those risks

Another palette of seedlings ready for cold storage.

enables a business to minimize uncertainty. At PRT, we believe that the strategy we have in place has been critical in keeping us in a strong financial position. With 13 nurseries spread across the country, we have greatly lowered our likelihood of suffering catastrophic loss (a real risk in most agro-industries). If indoor or outdoor growing conditions were to affect the crops in one nursery (as a result of poor weather or disease, for example), production elsewhere in the country would not likely be impacted by the same conditions. Each of our growing sites also has a formal risk management program that involves a range of elements, from highly trained and competent staff to insurance coverage for a variety of events. Of course, a structure based on geographic diversity offers biological benefits too, allowing our customers to have stock produced at the nursery location best suited to growing it.

In 2001, PRT's geographical diversification also continued to help offset and mitigate market impacts felt by forest industries at the regional level. Although we are not immune from swings in the forest products market, the diversified customer groups we serve have proven to be an important strategic advantage. We are in a better position than most of our competitors to cope with regional economic cycles. Our drive for further diversification—both in geographic distribution and market make-up—is continuing, with our sights set on the U.S.

Increased Geographic Diversity



PRT revenue by region – 1997 and 2001

Production Stability and Economies of Scale Continue to Work to Our Advantage

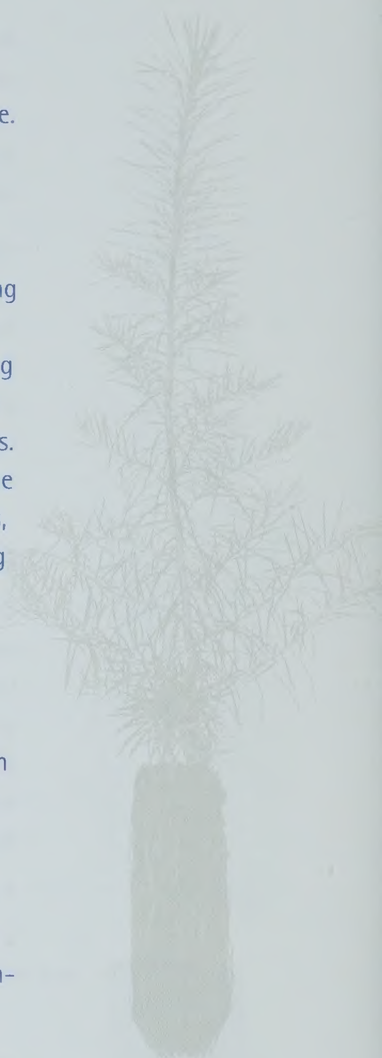
Unlike most other agricultural enterprises, PRT does not run a speculative operation. Rather, we produce what we're contracted to grow, to customer-defined specifications. In 2001, our crop production was nearly 100% under contract, with progress payments at various points in the term. The stability provided by such an arrangement has provided a secure revenue base and has sustained the Income Fund's long-term performance. During the year, sales of related services also boosted PRT's revenues.

Our large scale gives us a number of advantages over smaller operators. For example, we can optimize sowing patterns to reduce greenhouse costs, share best practices across the nursery system, and use our purchasing power to reduce our costs. In 2001, higher crop yields contributed appreciably to the year's favourable results. This positive outcome was achieved mainly through the considerable abilities and diligence of PRT's employees, and as a result of relatively good weather and growing conditions.

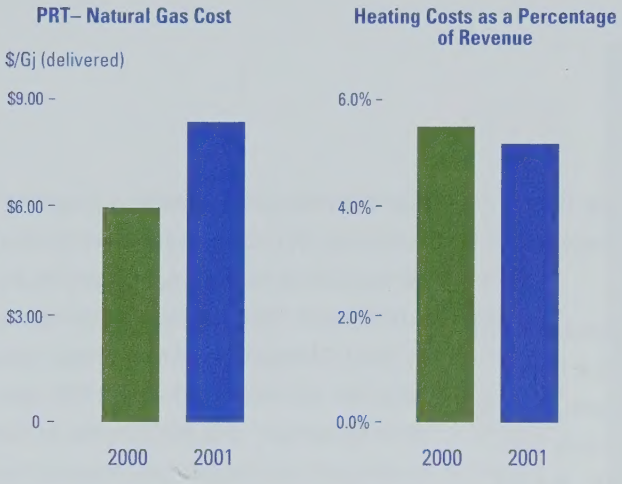
PRT's Heat Management Program: An Important Success Story for 2001

The strong results of 2001 are especially noteworthy in light of the significant increases in heating costs that PRT continued to face during the year.

As we reported previously, heating costs in 2000, as a percentage of revenue, were over 60% higher than in 1998. This was a consequence of the sharp rise in commodity prices worldwide for oil, natural gas, propane and other fuel sources. Natural gas is the most commonly used heating fuel in PRT's greenhouse operations, and the company's cash flow is very sensitive to these heating costs. To tackle the problem, we instituted a "20 Point Plan" for energy conservation throughout all our nurseries. We also diversified gas purchasing strategies between regulated and non-regulated sources. The result in 2001 was a 20% reduction in total heat consumption, and a reduction in heating costs as a percentage of revenue—and that despite the fact that energy prices over the first six months (our primary greenhouse heating period) were the highest we have ever experienced.



Energy Conservation Strategies



Despite a 40% increase in the cost of natural gas for PRT in 2001, energy costs in 2001 actually declined as percentage of revenue compared to 2000.

While natural gas prices came down in the last half of 2001, creating a better operating cost environment for us in 2002, we are committed to reducing the company's exposure to energy price fluctuations in future. We have therefore contracted forward approximately 40% of our natural gas needs for 2002. We are also investigating further energy-related options. This initiative includes testing alternative fuels and operational methods and investigating options such as co-generation. Together all these efforts will, we believe, more effectively insulate the company from the effects of volatile energy costs. The conservation program will continue to provide financial benefits year after year.

Acquisitions in Our Recent Phase of Expansion Are on Track

Last year saw significant improvement in operations at the last nurseries we acquired, PRT North Gro in Kirkland Lake and PRT Birchill in Cochrane, Ontario. Our focus for 2002 will be on continuing to refine operations in our 13 facilities, exploring opportunities for expansion in existing markets and developing new markets. Today, PRT holds a 30% share in its major market areas.

Looking Ahead: Every Reason for Optimism

How the U.S. tariff on softwood lumber exports will affect Canada's forest industry over the coming year remains unclear. Nevertheless, given our solid company situation and strong market share, we firmly believe that PRT will maintain its competitive position in the industry.

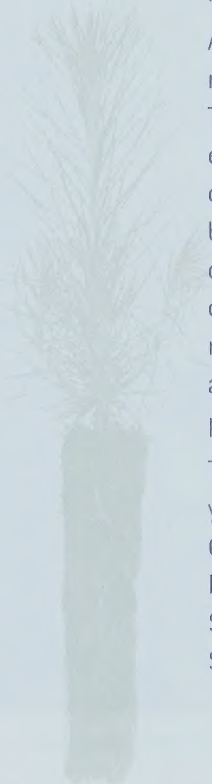
Because of the economic pressures currently being experienced by the forest industry, we have gone into 2002 with a demand for seedlings that is down approximately 10% in the market areas we serve. Nevertheless, PRT's reduction in orders is substantially less than the overall reduction in market demand, and we don't believe that the current market situation signifies a structural change in our business. Once the issues that are now facing Canada's forest industry are resolved, we expect to resume plans for expansion from our existing facilities.

Despite the uncertainties imposed by the trade dispute, we see several positive signs that the country's forest industry will rebound. Housing markets in both the U.S. and Canada are still very strong and thus still dependent on a steady supply of high quality lumber and related products. As we witness more consolidation and globalization taking place, we see excellent opportunities to expand into new markets and grow through strategic acquisitions. As well, we anticipate an improving environment for outsourcing and for integrating our growing and planting services.

In short, by continuing to pursue a measured and disciplined approach, we believe that PRT remains well positioned to weather the current challenges. The performance improvements we are reporting tell us we're solidly on the right course.

PRT cold storage facilities are located throughout our market area.

Evert Van Eerden
Vice Chairman & CEO
Pacific Regeneration Technologies Inc.



We are pleased to present to you the fifth annual report of the PRT Forest Regeneration Income Fund (the "Fund").

During 2001, the Fund's operating subsidiary, PRT (Pacific Regeneration Technologies Inc.), held a steady course in its key areas of business, despite the challenges of difficult economic times and Canada's softwood lumber dispute with the U.S. The company's success in "staying the course" over the past year can be attributed to PRT's sound strategic direction, solid operating base and well-established market position.

Sales for 2001 were strong in all of PRT's market areas. Revenues were up by 6% over 2000, totalling $35.2 million—a new record for the company. As well, the company finished out the year with an operating income of $8.9 million, an amount almost 11% higher than in 2000. Several factors contributed to this strong financial standing, including higher seedling block volumes, slightly higher prices for greenhouse-grown crops, improved seedling quality, and higher non-contracted seedling sales in the fourth quarter compared to last year.

Also significant was the increase in PRT's operating margin for 2001, which rose by 1.1% to 25.3%. This is especially noteworthy given the high energy costs during the year. Through the energy conservation program we implemented at the beginning of 2001 our operations achieved an overall 20% net reduction in greenhouse heat consumption. We expect that the energy saving measures so successfully undertaken in 2001—and others we are exploring—will continue to provide operational benefit in the coming years.

Term debt amortization was higher for the year, yet PRT's distributable cash flow increased by 6%, in line with the year's growth in revenue. Distributable cash flow for 2001 amounted to $5.68 million, or $1.01 per Unit, up from the $0.96 earned in 2000.

Like the energy conservation program, our other initiatives during the year were similarly focussed on improving existing operations and expanding our markets. Although we made no acquisitions in 2001, integration of two of our most recently acquired nurseries in Ontario, PRT North Gro in Kirkland Lake and PRT Birchill in Cochrane, continued on schedule and boosted revenues in 2001. Lower-cost open compound production of seedlings is continuing to account for a larger share of our operations. Expansion of open compound capacity is under way at PRT Armstrong, our largest facility.

Combined nursery administration, fund administration, and management fee costs amounted to $5.8 million, an increase of 2.8%. This reflects greater costs incurred in operating a larger number of nurseries, providing support, and carrying out research and development. However, these costs declined to 16.6% of revenues from 17.1% in 2000, as we achieved operating leverage on increased volume from existing locations.

Several changes in senior management occurred in 2001. In September, John Kitchen was promoted to President and Chief Operating Officer from his previous position as Vice President and General Manager. Mr. Kitchen graduated from the BC Institute of Technology (BCIT) in Burnaby, BC, in biological sciences in 1981. After working at another nursery and in reforestation, he and a partner formed their own commercial forest nursery. In 1994, PRT acquired that nursery, at which time Mr. Kitchen joined the company. His previous commercial nursery experience as an owner/ operator has significantly contributed to the growth and success of the company. His leadership in applying a systematized and disciplined approach to the company's operations and growth has been invaluable in taking the company forward.

Evert Van Eerden, who stepped down as President during 2001, will remain as Vice Chairman and CEO until his retirement in July 2002, at which time John Kitchen will succeed him as CEO. In anticipation of this executive transition, Mr. Kitchen has taken on progressively more responsibilities and a strategic leadership role during the past year. We are very pleased that we were able to affect a smooth leadership transfer through an internal promotion, entrusting the company to someone with the capabilities and qualifications of Mr. Kitchen.

Also, in early 2002, David Davenport stepped down as a Director and Trustee. We take this opportunity to thank him for his many contributions to the company and the Fund since its initial public offering in 1997. We also welcome George C. Stevens, Q.C., who was appointed a Director and Trustee effective April 12, 2002. Mr. Stevens has had a long and distinguished career in both the corporate and legal sectors. After working for Teck Corporation as Vice President, Corporate Affairs, from 1993 until June 2001, Mr. Stevens recently returned to Lang Michener, Barristers & Solicitors, as Associate Counsel. We look forward to working with Mr. Stevens in his new role with PRT.

Uncertainty in the Canadian forest industry, our main customer segment, has temporarily affected the demand for PRT's products in 2002. The ongoing trade dispute with the U.S. over softwood lumber exports, combined with low lumber and pulp prices generally, has led to mill closures and reductions in logging activity across the country. Some regions, such as coastal British Columbia, have been particularly hard hit. In this current industry environment, overall industry demand for forest seedlings in 2002 will be slightly reduced from that in the previous year. However, PRT's total market share will be maintained or enhanced, as we benefit from our leading market position and geographic market diversity.

John Kitchen (L), President and Evert Van Eerden (R), Vice Chairman and CEO (retiring).

Overall, pricing will remain under pressure in the coming year as a result of competitive activity and product mix changes made by our forest industry customers in an effort to minimize costs. We therefore anticipate a temporary decline in PRT's revenues in 2002, but believe that levels should remain in line with the $33.3 million achieved in 2000. Our geographic and market diversification, while not making us immune from prevailing economic conditions, is—as 2001 has just shown—a proven advantage in enabling us to maintain a steady operational and financial position.

Unquestionably, 2001 was a tough year for a large portion of our customers and we are going to feel the effects of this downturn. Nevertheless, we are optimistic about their prospects over the long term. Our aim will be on helping our customers through these difficult times and looking for new opportunities to secure market gains, while we continue to deliver strong financial performance for our Unitholders.

On behalf of the Trustees and Management

Colin A.C. Dobell
Trustee

Evert Van Eerden
Vice Chairman and CEO
Pacific Regeneration Technologies Inc.

General

The Fund's activities are restricted to holding the Common Shares and Notes of PRT, receiving income from such securities and distributing such income to Unitholders. The financial condition and results of the Fund are entirely dependent on the operations of the Company. PRT generates its income by operating a network of forest seedling nurseries and its earnings and cash flows are affected by the volume of seedling blocks sown and the contracted value generated per seedling block.

Revenue is principally generated from contracted seedling sales recognized on a percentage of completion basis as well as other revenue derived from non-contracted seedling sales, cold storage, and tree planting and other services. Margins are affected by the extent to which PRT owns rather than leases greenhouse capacity, the mix of greenhouse and open compound production, space utilization, employee productivity, input costs, and the contracted value per seedling block.

Jamie Farrer of PRT Campbell River, checking seedling crop.

Selected Consolidated Financial Information

The following table sets out selected annual historical financial information which should be used in conjunction with the consolidated financial statements of the Fund appearing elsewhere in this report:

	Years ended December 31, 2001	2000	1999
Total revenues	$ 35,165,485	$ 33,269,722	$ 26,713,558
Earnings before interest, income taxes, depreciation, amortization and other income (loss)	8,904,601	8,059,584	7,089,787
Net earnings	4,371,791	4,121,691	4,508,433
Per Trust Unit	0.78	0.74	0.80
Current assets	13,075,559	12,550,728	9,334,229
Long-term assets	58,856,196	58,448,153	57,067,592
Total assets	69,931,755	70,998,881	66,401,821
Current liabilities	11,553,313	11,209,120	8,198,500
Total long-term financial liabilities	10,080,572	10,551,589	7,337,601
Unitholders' equity	46,794,516	47,805,651	50,029,247
Distributable cash for the year	5,684,172	5,382,899	5,894,530
Per Trust Unit	1.01	0.96	1.05

The following table sets out selected quarterly financial information for the past eight quarters, ending at the Fund's last fiscal year:

	2001 1st Q	2nd Q	3rd Q	4th Q	2000 1st Q	2nd Q	3rd Q	4th Q
	(unaudited)				(unaudited)			
Total revenues (000s)	$ 7,733	$ 11,878	$ 6,423	$ 9,131	$ 7,091	$ 11,833	$ 6,384	$ 7,962
Earnings before interest, income taxes, depreciation, amortization and other income (loss) (000s)	1,746	3,423	1,089	2,647	1,574	3,454	888	2,144
Net earnings (000s)	836	1,749	495	1,292	826	1,807	414	1,075
Per Trust Unit	0.15	0.31	0.09	0.23	0.15	0.33	0.07	0.19

Results of Operations

Since 1997 revenues and operating income of PRT have increased by approximately 70% as a result of acquisitions, construction of new nurseries and internal expansion. Net earnings and distributable cash have not grown at this pace due to the impact of higher energy costs, the cash cost of debt service on the Term Loan and the impact of increased lower margin service business. The Term Loan has been used to finance expansionary capital expenditures over this period and is expected to be repaid from the proceeds of a Unit Offering in 2002.

Revenues for 2001 increased by 5.7% over 2000, to $35.2 from $33.3 million on higher block volumes and marginally higher prices for greenhouse-grown stock. In addition, crop yields improved in 2001, which resulted in a higher order fulfillment. Improved crop yields also contributed to increased sales of non-contracted seedlings from surplus production.

Block volumes increased as a result of market growth within existing locations. No new acquisitions were completed in the year. Internal expansion was primarily directed to open compound production facilities.

Costs of production increased by 4.6% over 2000 as a result of higher production volumes and higher energy prices. However, costs of production decreased to 58.0% of revenue from 58.7% in the prior year. This margin improvement was the result of better operating performance at PRT's nurseries in eastern Ontario, energy conservation measures and higher crop yields in 2001.

In the 2000 year, PRT incurred one-time start up and integration costs following the acquisitions of two nurseries in northeastern Ontario. These costs were not repeated in the current year.

Energy costs in 2001 were impacted by higher commodity prices for natural gas during the Fund's primary greenhouse heating season, which occurs in the first and second quarters. Energy prices impact various input costs, including seedling containers, fertilizers and most significantly greenhouse heating. The average cost per delivered gigajoule of natural gas purchased increased by approximately 40%, to $8.34 per delivered gigajoule in 2001 from $5.92 per delivered gigajoule in 2000. However, energy conservation strategies initiated over the past two years have been effective in reducing gross consumption by over 20% compared to periods prior to 2000. This largely offset the price increase and limited the overall increase in annual heating costs to 7%, or approximately $100,000 on equivalent greenhouse volume. Nevertheless, heating costs as a percentage of revenue in 2001 were 55% higher than they were in 1998. As a percentage of revenue, 2001 heating costs declined slightly from 2000, to 5.1% of revenue, despite the significantly higher cost for natural gas. This was primarily due to the increased block volume in the current year being accommodated mainly in unheated open compounds. Based on 2001 energy consumption, management of PRT estimates that a $1.00 change in the average annual price per gigajoule of natural gas will impact the Fund's earnings and distributable cash by approximately $0.04 per Trust Unit.

Administrative overhead costs, including nursery administration, fund administration and the management fee increased by 2.8%, principally due to higher marketing costs and professional fees. However, as a result of operating leverage, administrative overheads continue to decline as a percentage of revenue, falling to 16.6% in 2001, as compared to 17.1% in 2000 and 19.5% in 1999.

Operating income (earnings before interest, income taxes, depreciation, amortization and gain on sale of property, plant and equipment) increased by $845,000 or 10.5% to $8,905,000. Operating income growth exceeded revenue growth despite higher year-over-year energy costs. This was mainly attributable to operating improvements throughout the Company, particularly at PRT's nurseries in eastern Ontario. In addition, good crop yields in the fourth quarter allowed PRT to sell additional seedling volumes on a non-contracted basis.

Interest costs increased by $131,000 as a result of higher average Term Loan balances over the course of the year. The Term Loan is structured on fixed rates using interest rate swaps, so declines in interest rates over the period only impacted PRT's operating line costs. The Term Loan is incurred to finance PRT's acquisitions and earnings-enhancing capital expenditures.

Depreciation costs were $427,000 higher on a year-over-year basis. Approximately one-half of this increase results from capital asset purchases made in the prior year, with the balance being attributable to asset write-downs on certain greenhouse assets which were retired from service in the third quarter. This growing capacity was shifted to more cost-effective open compound facilities.

Net earnings for the year increased by $250,000 ($0.04 per Trust Unit) to $4,372,000 as a result of increased revenues and improved production costs in 2001. The amount of the increase was partially offset by the higher interest and depreciation charges noted above.

Cash flow for the year available for distribution (operating earnings less interest, debt service, cash taxes, sustaining capital expenditures and capital reserves) totaled $5,684,000 ($1.01 per Trust Unit), up from $5,383,000 ($0.96 per Trust Unit) in 2000. Distributable cash was positively impacted by the higher revenues and operating improvements noted above, and increased despite total debt service costs which were $527,000 higher than debt service costs in 2000. The increase in debt service costs results from interest and scheduled amortization on the Term Loan, which was incurred to finance expansion projects in 1999 and 2000. Sustaining capital expenditures were 1.6% of revenue, in line with 2000 after including a $160,000 reserve for projects planned for 2001 and carried over into 2002.

Distributable cash is a term which does not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures provided by other reporting entities. Reconciliation between net earnings reported in accordance with GAAP and

Evert Van Eerden (L) with Burt Fleming, Tom Harvey, and Rob Miller (VP Finance).

distributable cash is included in the Consolidated Statements of Distributable Cash included in the consolidated financial statements of the Fund appearing elsewhere in this report.

Liquidity and Capital Resources

Cash provided from operations, before changes in net cash working capital, totalled $8.5 million in 2001, an increase of $0.8 million over 2000. This improvement was the result of higher operating earnings in 2001.

Non-cash working capital increased by $0.2 million during 2001, and is attributable to cash flow from operations exceeding distributions paid during the period.

PRT has up to $7.7 million available under its revolving Operating Facility to fund working capital requirements and for general corporate purposes. The availability of the Operating Facility is subject to certain margining provisions on accounts receivable, inventory and unbilled revenue. At the end of 2001, $0.7 million was still available to be drawn under this facility.

Long-term loans decreased by $0.3 million at December 31, 2001 as compared to December 31, 2000, as a result of a scheduled debt amortization exceeding new drawings on the facility. PRT uses its Term Loan to finance capital expenditures that are incurred to enhance operating earnings. Project return benchmarks are established so that long-term returns from such expenditures are accretive to Unitholders. A total of $1.0 million was drawn for this purpose in 2001 while $1.3 million was repaid as scheduled amortization.

The Term Loan has a $20 million limit, from which $11.5 million in net cumulative drawings have been made, leaving $8.5 million available at December 31, 2001 for financing future expansion. In 2002, we expect that the Term Loan will be repaid from the proceeds of an Unit Offering, and the full $20 million will then become available for financing future expansion initiatives.

Financing activities also include cash distributions paid to Unitholders during the year. The amount paid in 2001 reflects the timing of distributions, following the change in distribution policy adopted in 1999. In years prior to 1999, payments of interest and dividends to the Fund were made on a quarterly basis, based on anticipated operating results for the year. In 1999, the policy was amended such that only the interest portion was paid during the year, with the dividend being deferred and paid in the following year based on audited results for the year. Accordingly, distributions in 2001 include $0.88 per Trust Unit declared over the four quarters of 2001, plus a $0.08 per Trust Unit distribution paid from additional distributable cash from 2000 operations. A distribution of $0.14 per Trust Unit was declared subsequent to year-end out of 2001 cash flow, payable to Unitholders on March 15, 2002.

Capital spending in 2001 totalled $2.5 million. As a result of weaker forest industry market conditions in 2001, capital spending for expansion was reduced and efforts were directed to improving existing operations. Major projects in the year included expansion of open compounds at PRT Armstrong, investments in production automation equipment, and information system upgrades.

Expenditures for sustaining capital and seedling containers are financed out of cash flow in the period incurred. Earnings-enhancing capital projects are financed from the Term Loan. The Term Loan is amortized over ten years, and the amortization payments are deducted in computing cash flow available for distribution to Unitholders.

Risks and Risk Management

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows much of its crop in climate controlled greenhouses in diverse locations, and carefully monitors the growing conditions of its nurseries with trained growing personnel. In addition, the Company maintains insurance against certain types of crop losses.

Certain of PRT's costs are subject to variations caused by movements in commodity prices. Some costs, such as energy, have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's cost structure. The Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset commodity price volatility. To reduce this risk, PRT purchases energy from a variety of regulated and non-regulated sources, which is expected to dampen the effect of short-term changes in commodity prices. The Company may also enter into forward purchase contracts for future energy requirements where management considers it advantageous to do so.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not materially dependent on any one customer, regional markets may be impacted by changes in global markets and government regulations. In recent years, management has taken steps to diversify PRT's operations outside of British Columbia, such that at the present time, more than half of the Company's revenues are derived from outside the province.

The Company intends to use term debt financing to fund earnings-enhancing capital expenditures in the current low interest rate environment. Interest rate risk is managed by fixing term debt rates for varying terms using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of total borrowings. Accordingly, management does not hedge interest rate risk on this debt.

The production of forest seedlings has limited impact on the environment. Seedlings are grown in controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Outlook

Current indications are that overall industry demand for forest seedlings in PRT's principal markets has eased somewhat from 2001. The Canadian forest industry continues to suffer from the ongoing trade dispute with the United States over softwood lumber. This issue, in combination with low lumber and pulp prices and poor economic conditions generally, has led to reductions in logging activity, impacting silviculture activity, and consequently the demand for forest seedlings.

The extent to which these factors have impacted the forest industry varies across the country, with the coastal region of British Columbia being more significantly affected. PRT has attempted to minimize its exposure to regional economic factors by maintaining a broad market exposure in Canada and the Pacific Northwest of the United States, with facilities in British Columbia, Alberta, Saskatchewan and Ontario.

PRT's contracted seedling volume is expected to decline this year as a result of lower industry demand. However, PRT's total market share is not expected to decline. Overall pricing in the current industry environment is not expected to increase, and may decrease slightly in some markets, as a result of competitive activity and product mix changes in response to pressure by forest industry customers to minimize costs in this difficult environment. As a consequence, PRT's revenues for 2002 are expected to decline from 2001 levels.

Reduced volumes and lower prices will impact operating income in 2002. However, operating cost reductions combined with energy savings relative to last year will offset some of this impact, with natural gas prices having declined significantly since early 2001. For 2002, approximately 40% of the Company's annual natural gas volume has been contracted forward at a fixed commodity price of US$2.86 per gigajoule, before delivery. As a result of these measures, PRT should be able to maintain its ratio of earnings before interest, income taxes, depreciation, amortization and other income (loss) to revenue (EBITDA margin) at approximately the level achieved in 2000.

PRT intends to repay its Term Loan and the associated interest rate swap agreements in 2002 from the proceeds of a Unit Offering. The effect of this will be a $560,000 reduction in interest expense, offset by a one-time refinancing charge incurred to cancel the interest rate swaps which at March 28, 2002 was estimated by management to be $400,000. Term Loan debt service, including interest and principal amortization, will decrease by $1,961,000 in 2002 compared to 2001 as a result of the repayment of the Term Loan. Term Loan amortization is deducted in calculating distributable cash of the Fund. Accordingly, if the new Trust Units had been issued on January 1, 2001, and the net proceeds of the Offering, without giving effect to the Underwriting Over-Allotment Option, had been used to retire existing indebtedness on that date, distributable cash in respect of 2001 would have been $8.0 million ($1.12 per Trust Unit).

With completion of the various expansion projects in recent years and the integration of PRT's nursery network in north-eastern Ontario, the Company is positioned as the leading forest seedling grower in all its major markets. From this operating base, PRT is strongly positioned to service local, regional and national customers. This is becoming increasingly important as forest industry customers continue to consolidate and streamline their operations, and as stakeholders in the forest industry place increased emphasis on sustainable forest resource management.

In the near term, management expects pressure on volume and prices due to current difficult conditions in the forest industry. However, the outlook for energy costs is improving and this should partially offset these factors in 2002. Once forest industry conditions improve, PRT is in a strong position to benefit with its leading market share and improving cost structure. With this longer-term outlook assumption, PRT anticipates improved operating results from existing operations, plus further opportunities for growth through acquisition and expansion into new markets.

(L to R) Stuart Haywood-Farmer, Okanagan Operations Manager, John Kitchen, President, and Peter Richter, Regional Manager, inspecting seedlings at PRT Vernon.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund (the "Fund") and all the information in this annual report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

The consolidated financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the consolidated financial statements of the Fund.

PRT Management maintains, on behalf of the Fund, systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements of the Fund. The Trustees carry out this responsibility through the Fund's Audit Committee.

The Audit Committee is comprised of the three Trustees, all of whom are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

On behalf of the Trustees and Management

Colin A.C. Dobell
Trustee

Evert Van Eerden
Vice Chairman & CEO
Pacific Regeneration Technologies Inc.

February 20, 2002

To the Unitholders of
PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of **PRT Forest Regeneration Income Fund** (the "Fund") as at December 31, 2001 and 2000 and the consolidated statements of earnings and Unitholders' equity, distributable cash and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and 2000 and the results of its operations, changes in Unitholders' equity, distributable cash and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
February 8, 2002
(except for note 9, which is as at February 20, 2002
and note 15 which is as at April 23, 2002)

Consolidated Balance Sheets

As at December 31, 2001 and 2000

	2001	2000
Assets		
Current assets		
Cash	$ 1,244,296	$ 1,241,075
Accounts receivable	8,526,275	8,273,145
Inventories	1,107,786	1,263,878
Prepaid expenses	224,123	274,280
Unbilled revenue	1,973,079	1,498,350
	13,075,559	12,550,728
Property, plant and equipment *(note 5)*	30,369,038	31,204,727
Goodwill	26,487,158	27,243,426
	$ 69,931,755	$ 70,998,881
Liabilities and Unitholders' Equity		
Current liabilities		
Operating line *(note 6)*	$ 6,992,766	$ 7,095,771
Accounts payable and accrued liabilities	1,898,706	1,589,926
Distribution payable to Unitholders *(note 9)*	1,240,825	1,237,411
Current portion of long-term debt *(note 7)*	1,421,016	1,286,012
	11,553,313	11,209,120
Long-term debt *(note 7)*	10,080,572	10,551,589
Future income taxes *(notes 3 and 10)*	1,503,354	1,432,521
	23,137,239	23,193,230
Unitholders' Equity *(note 8)*	46,794,516	47,805,651
	$ 69,931,755	$ 70,998,881

Subsequent events *(note 15)*

Approved by the Trustees

Colin A.C. Dobell
Trustee

Allan D. Laird
Trustee

Consolidated Statements of Earnings and Unitholders' Equity

For the years ended December 31, 2001 and 2000

	2001	2000
Revenue	$ 35,165,485	$ 33,269,722
Expenses		
Costs of production	20,413,195	19,521,383
Nursery administration	4,649,255	4,466,095
Fund administration	198,434	222,660
Management fee *(note 11(b))*	1,000,000	1,000,000
	26,260,884	25,210,138
Earnings before the following	8,904,601	8,059,584
Interest expense	(1,224,928)	(1,094,325)
Depreciation	(2,435,635)	(2,008,509)
Amortization of goodwill	(756,268)	(748,518)
Gain on sale of property, plant and equipment	35,368	8,171
Earnings before income taxes	4,523,138	4,216,403
Provision for income taxes *(note 10)*	151,347	94,712
Net earnings for the year	4,371,791	4,121,691
Distributions declared during the year *(note 9)*	(5,382,926)	(5,886,269)
Adjustment for adoption of new accounting standard *(note 3)*	–	(459,018)
Unitholders' Equity - Beginning of year	47,805,651	50,029,247
Unitholders' Equity - End of year	$ 46,794,516	$ 47,805,651
Net earnings per Trust Unit	$ 0.78	$ 0.74
Weighted average number of Trust Units outstanding	$ 5,605,714	$ 5,605,714

Consolidated Statements of Distributable Cash

For the years ended December 31, 2001 and 2000

	2001	2000
Net earnings for the year	$ 4,371,791	$ 4,121,691
Net earnings adjustments		
Depreciation (excluding seedling containers)	2,435,635	2,008,509
Amortization of goodwill	756,268	748,518
Future income tax provision (recovery)	70,833	(15,212)
Repayment of long-term debt	(1,336,013)	(932,264)
Sustaining capital expenditures	(418,974)	(540,172)
Reserve for sustaining capital expenditures	(160,000)	–
Gain on sale of property, plant and equipment	(35,368)	(8,171)
Distributable cash	$ 5,684,172	$ 5,382,899
Distributable cash per Trust Unit	$ 1.01	$ 0.96

Consolidated Statements of Cash Flows

For the years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities		
Net earnings for the year	$ 4,371,791	$ 4,121,691
Items not affecting cash		
Depreciation	3,307,892	2,802,750
Amortization of goodwill	756,268	748,518
Future income taxes (recovery)	70,833	(15,212)
Gain on sale of property, plant and equipment	(35,368)	(8,171)
	8,471,416	7,649,576
Net change in non-cash working capital items	(212,830)	(2,998,407)
	8,258,586	4,651,169
Cash flows from financing activities		
Distributions paid to Unitholders	(5,379,512)	(5,889,610)
Proceeds of long-term debt	1,000,000	4,700,000
Repayment of long-term debt	(1,336,013)	(932,264)
Increase (decrease) in operating line	(103,005)	2,861,613
	(5,818,530)	739,739
Cash flows from investing activities		
Acquisitions - net of cash acquired *(note 4)*	–	(470,740)
Purchase of property, plant and equipment	(2,545,218)	(4,935,789)
Proceeds on sale of property, plant and equipment	108,383	12,131
	(2,436,835)	(5,394,398)
Increase (decrease) in cash	3,221	(3,490)
Cash - beginning of year	1,241,075	1,244,565
Cash - end of year	$ 1,244,296	$ 1,241,075
Supplemental information		
Interest paid	$ 1,131,266	$ 1,210,175
Income taxes paid	$ 80,514	$ 71,924

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

1 Organization and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose Trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at eight nurseries in British Columbia, three in Ontario, and one in each of Alberta and Saskatchewan.

2 Significant accounting policies

Basis of financial statements

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, Pacific Regeneration Technologies Inc. ("PRT") and PRT's wholly owned subsidiary companies. Inter-group transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage of completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost. Native plants and seed inventories are carried at the lower of cost and net realizable value.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

Buildings	40 years
Greenhouses	25 years
Equipment	3–15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and Unitholders' equity.

Goodwill

Goodwill is amortized using the straight-line method over its estimated useful life of either 40 years or 5 years. The Trustees of the Fund review the valuation and amortization of goodwill on an ongoing basis, taking into consideration any events and circumstances that might have impaired the value. Goodwill is written down when declines in value are considered to be other than temporary based upon forecast future cash flows.

Notes to Consolidated Financial Statements (continued)

December 31, 2001 and 2000

2 Significant accounting policies (continued)

Distributions to Unitholders

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for depreciation, amortization, future income taxes, repayment of long-term debt, sustaining capital expenditures and gains or losses on sale of property, plant and equipment. In the event earnings-enhancing capital expenditures are not financed with long-term debt or additional equity, distributable cash may be reduced by these expenditures as well.

Distributions to Unitholders are made on a quarterly basis. Effective the first quarter of 1999, the Fund adopted a policy of making a cash distribution each quarter equal to interest charged to PRT by the Fund on the $41.2 million of inter-group 12% unsecured subordinated notes (the "Notes") plus interest charged on any other inter-group indebtedness less estimated Fund administration costs. In addition to the quarterly distributions, an additional distribution (the "Fifth Distribution") will be made coincident with the first quarter distribution of the following year based on the actual distributable cash for the year, less reserves, if any, considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

3 Change in accounting policy

On January 1, 2000, the Fund and its subsidiaries adopted the new recommendations of the Canadian Institute of Chartered Accountants dealing with accounting for income taxes. The new standard requires the use of the liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs.

The Fund and its subsidiaries have adopted the new recommendations retroactively without restating the results of prior periods. The cumulative effect of adopting the new recommendations as at January 1, 2000 is an increase in future income taxes and a decrease in Unitholders' equity of $459,018.

Prior to adoption of the new recommendations, PRT and its subsidiaries followed the tax allocation method of accounting for income taxes, whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable or recoverable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for tax purposes.

The Fund is a Unit Trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the Unitholders. During 2001 and 2000, all taxable income of the Fund has been allocated to the Unitholders. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Subsidiaries of the Fund are normal taxable entities.

The income tax provision recorded in these consolidated financial statements is based on the consolidated tax position of the Fund and its subsidiaries.

Notes to Consolidated Financial Statements (continued)
December 31, 2001 and 2000

4. Acquisitions

During the year ended December 31, 1999, PRT completed the following acquisitions:

a) the assets of a reforestation contracting business in Dryden, Ontario.

b) 100% of the outstanding shares of Birchill Forest Renewal Center Inc. ("Birchill"), a reforestation nursery located in Cochrane, Ontario.

c) 100% of the outstanding shares of 884030 Ontario Limited and its wholly owned subsidiary, North Gro Development Ltd. ("North Gro"), a reforestation nursery located near Kirkland Lake, Ontario.

d) specific assets of a reforestation nursery in North Bay, Ontario, that were relocated to the North Gro nursery location.

The combined net assets acquired at fair market value are as follows:

Cash	$ 261,554
Non-cash net working capital	752,631
Property, plant and equipment	2,517,105
Goodwill	15,000
Future income taxes	(220,241)
	$ 3,326,049

Total consideration	
Cash consideration paid during 1999	$ 2,855,309
Cash consideration paid during 2000	470,740
	$ 3,326,049

These acquisitions have been accounted for using the purchase method, and, accordingly, these consolidated financial statements include the results of operations from the date of acquisition. Birchill and North Gro were both wound up into PRT at December 31, 1999.

As at December 31, 1999, the cash consideration to be paid in 2000 was estimated to be $747,483. The actual consideration paid in 2000 was $470,740. The purchase price allocation has been adjusted to reflect the actual consideration paid.

5. Property, plant and equipment

			2001
	Cost	Accumulated depreciation	Net
Land	$ 2,631,643	$ –	$ 2,631,643
Buildings	4,460,314	448,386	4,011,928
Greenhouses	17,441,516	3,045,057	14,396,459
Equipment	11,401,685	4,123,009	7,278,676
Seedling containers	4,718,822	2,668,490	2,050,332
	$ 40,653,980	$ 10,284,942	$ 30,369,038

			2000
	Cost	Accumulated depreciation	Net
Land	$ 2,655,212	$ –	$ 2,655,212
Buildings	4,442,529	330,735	4,111,794
Greenhouses	16,993,410	2,033,475	14,959,935
Equipment	10,443,867	2,831,518	7,612,349
Seedling containers	3,836,230	1,970,793	1,865,437
	$ 38,371,248	$ 7,166,521	$ 31,204,727

Notes to Consolidated Financial Statements (continued)
December 31, 2001 and 2000

5. Property, plant and equipment (continued)

The following summarizes the amounts charged to earnings in respect of depreciation:

	2001	2000
Seedling container depreciation included in costs of production	$ 872,257	$ 794,241
Other depreciation	2,435,635	2,008,509
Total depreciation	$ 3,307,892	$ 2,802,750

6. Operating line

PRT has a demand revolving operating facility of up to $7.7 million or US$4.75 million (2000 - $7.7 million) to fund the company's working capital and general corporate requirements, and to provide temporary financing for earnings-enhancing capital expenditures prior to conversion to term debt (note 7). The amount of operating line available is dependent upon meeting certain margin requirements. As at December 31, 2001, the full amount of the facility was available. At December 31, 2001, the company had drawn $4,992,766 (2000 - $6,095,771) of cash advances from the operating facility bearing interest at prime plus 1/4% (2000 - prime) and $2,000,000 (2000 - $1,000,000) of a short-term bankers' acceptance, maturing on January 14, 2002 (2000 - January 5, 2001), bearing interest at 3.74% (2000 - 7.14%) including a stamping fee. A first fixed and floating charge over PRT's assets is provided as security.

7. Long-term debt

PRT has a term debt facility available in the amount of $20 million (2000 - $15 million), or the equivalent in U.S. dollars, to fund earnings-enhancing capital expenditures and acquisitions. The loans are amortized on a straight-line basis over 10 years, but mature 5 years from the date of drawing.

As at December 31, 2001, the following amounts have been drawn under the facility:

	2001	2000
Term loan, bearing interest at 7.35% (2000 - 7.35 %), maturing on March 31, 2006	$ 10,551,588	$ 11,837,601
Term loan, bearing interest at 7.9%, maturing on September 30, 2006	950,000	–
	11,501,588	11,837,601
Less: Current portion	1,421,016	1,286,012
	10,080,572	10,551,589
Interest paid on long-term debt	$ 920,223	$ 796,737

PRT has entered into interest rate swap agreements on terms varying from 5 to 10 years to fix the interest rates on its term loans. The rates noted in the above table represent the fixed interest rates, including stamping fees, resulting from the swap agreements.

The lender has the ability to demand repayment of the loans in the event of a default or a material adverse change in the financial condition of PRT.

A first fixed and floating charge over PRT's assets is provided as security.

The principal repayments required on the long-term debt are as follows:

Year ending December 31	
2002	$ 1,421,016
2003	1,421,016
2004	1,421,016
2005	1,421,016
2006	5,367,524
Thereafter	450,000
	$ 11,501,588

Notes to Consolidated Financial Statements (continued)

December 31, 2001 and 2000

8. Unitholders' equity

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable, and entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Trust Unit held. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a *pro rata* number of PRT common shares and Notes.

Units outstanding as at December 31 are:

	2001	2000
Number of Units	5,605,714	5,605,714

During 2001, the Fund established a Unit option plan whereby the Trustees of the Fund may from time to time grant options to purchase Units to eligible officers, employees and consultants of the Fund or any subsidiary and to directors of any subsidiary. The aggregate number of Units reserved under the plan is 560,572. The maximum term of any option is 10 years. The exercise price of an option cannot be less than the average of the Unit price at the close of business on the five trading days preceding the grant date.

As at December 31, 2001, no options had been granted.

9. Distributions to Unitholders

During the year ended December 31, 2001, the Fund declared distributions to the Unitholders of $5,382,926 or $0.96 per Unit (2000 - $5,886,269 or $1.05 per Unit). The amounts and record dates of these distributions were:

	2001		2000	
	Amount	Per Unit	Amount	Per Unit
Fifth Distribution on account of prior year	$ 460,302	$ 0.08	$ 963,671	$ 0.17
March 31	1,213,710	0.22	1,223,886	0.22
June 30	1,227,264	0.22	1,223,890	0.22
September 30	1,240,825	0.22	1,237,411	0.22
December 31	1,240,825	0.22	1,237,411	0.22
	$ 5,382,926	$ 0.96	$ 5,886,269	$ 1.05

The distribution of $1,240,825 with a record date of December 31, 2001 was accrued at year-end and paid in January 2002.

On February 20, 2002, the Fund's Trustees declared a Fifth Distribution for 2001 of $761,256 or $0.14 per Unit (February 16, 2001 - $460,302 or $0.08 per Unit) which will be paid coincident with the first distribution for 2002. As a result, cash distributions in respect of 2001 total $5,683,880 or $1.01 per Unit (2000 - $5,382,900 or $0.96 per Unit).

Notes to Consolidated Financial Statements (continued)
December 31, 2001 and 2000

9. Distributions to Unitholders (continued)

The costs of issuing Trust Units incurred by the Fund of $3,002,597 are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared have been allocated as follows for income tax purposes:

	2001	2000
Taxable – interest	$ 4,322,101	$ 4,322,080
Taxable – dividends	302,339	963,671
Non-taxable	758,486	600,518
Total distribution	$ 5,382,926	$ 5,886,269
Per Unit	$ 0.96	$ 1.05

As at December 31, 2001, $315,889 (2000 – $916,410) of issue costs were available for future designation as non-taxable distributions.

10. Income taxes

a) The consolidated income tax provision (recovery) comprises the following:

	2001	2000
Current income taxes	$ 80,514	$ 109,924
Future income taxes	70,833	(15,212)
	$ 151,347	$ 94,712

b) The provision for income taxes shown in the consolidated statements of earnings differs from the amounts obtained by applying statutory tax rates to the earnings before provision for income taxes for the following reasons:

	2001	2000
Income tax expense computed at statutory rates	$ 1,798,295	$ 1,882,367
Interest on the Notes and other inter-group indebtedness	(2,036,635)	(2,255,049)
Non-deductible amortization	296,401	328,189
Reduction in income tax rate	(77,636)	(46,149)
Large corporations tax	80,514	109,924
Other	90,408	75,430
Provision for income taxes	$ 151,347	$ 94,712

c) The net future income tax liability comprises the following differences between book value and tax value at current rates:

	2001	2000
Future income tax assets (liabilities)		
Accounts receivable	$ (34,674)	$ (70,042)
Property, plant and equipment	(1,352,528)	(1,700,776)
Deductible expenses for tax purposes	(283,816)	(113,699)
Share issue costs	80,217	257,669
Tax loss carry-forwards	87,447	194,327
Future income tax liability – net	$ (1,503,354)	$ (1,432,521)

Notes to Consolidated Financial Statements (continued)

December 31, 2001 and 2000

10. Income taxes (continued)

d) Expiry of non-capital loss carry-forwards in subsidiary companies is as follows:

Year ended December 31,

2002	$ –
2003	–
2004	–
2005	–
2006	219,985
	$ 219,985

11. Administration and Management Agreements

a) Administration Agreement

The Fund has entered into an Administration Agreement with PRT Management Inc. ("PRT Management"), a company owned by certain of the former owners of PRT. According to the Agreement, PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The Agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

b) Management Agreement

PRT has entered into a Management Agreement with PRT Management. According to the Agreement, PRT Management will provide management and administration services and strategic advice to PRT and provide individuals to serve in executive positions. The initial term of the Agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. PRT Management earns a fee of $1,000,000 per annum, plus reimbursement of certain extraordinary out-of-pocket expenses. The fee is periodically set with reference to and as compensation for PRT Management's internal costs and expenses of providing these services, including salaries and wages. In addition, as an incentive to PRT Management to enhance cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

During the year, PRT Management earned a fee of $1,000,000 (2000 - $1,000,000) under the Management Agreement. No incentive fees were earned by PRT Management during the year (2000 - $nil).

Notes to Consolidated Financial Statements (continued)

December 31, 2001 and 2000

12. Commitments

PRT has operating lease commitments for certain nursery growing facilities. Future minimum payments over the next five years are as follows:

Year ending December 31,		
2002	$	158,423
2003		158,423
2004		29,183
2005		29,183
2006		29,183
Thereafter		313,533
		717,928

13. Related party balances and transactions

PRT provides seedling cultivation services at market rates to a company partially owned by the shareholders of PRT Management. During the year ended December 31, 2001, PRT charged $202,844 (2000 - $12,760) for providing these services. As at December 31, 2001, included in accounts receivable is $nil (2000 - $25,547) due from the related party.

Also see *note 11.*

14. Financial instruments

Fair value

The fair values of cash, accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

At December 31, 2001, the fair value of long-term debt exceeds the carrying value by $600,000. The fair value has been determined by discounting future payments of interest on the principal at estimated rates that would be available to PRT at year end.

Interest rate risk

To manage interest rate risk caused by fluctuations in the market, PRT enters into interest rate swap transactions, effectively fixing the interest rates as disclosed in *note 7.*

Credit risk

A substantial portion of PRT's accounts receivable are with customers in the forestry industry and are subject to normal industry credit risks.

15. Subsequent events

On April 23, 2002, the Fund completed the issue of 1,500,00 Trust Units of the Fund at $10 per Trust Unit for net proceeds of $13,550,000 to the Fund, after deducting expenses of the issue estimated to be $1,450,000. The underwriters have also been granted a 10% over-allotment option, which is exerciseable up to May 21, 2002.

PRT
Altogether a better approach™

Company Information

Directors

Colin A.C. Dobell, *Chairman*
President, C. Dobell Inc.
Financial Consulting Firm

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel,
Lang Michener, Barristers & Solicitors
Law Firm

Evert Van Eerden
Vice Chairman and CEO

John Kitchen
President and COO

Officers

Evert Van Eerden, RPF
Vice Chairman and CEO

John Kitchen
President and COO

Robert A. Miller, CA
Vice President Finance/Administration, CFO and Secretary

Head Office

#4 – 1028 Fort Street
Victoria, British Columbia
Canada, V8V 3K4
Telephone: (250) 381-1404
Facsimile: (250) 381-0252

Auditors

PricewaterhouseCoopers LLP

Registrar and Transfer Agent

Computershare Investor Services
Vancouver, Calgary, Toronto and Montreal

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol

PRT.UN

Web Site

www.prtgroup.com

Fund Information

Trustees

Colin A.C. Dobell, *Chairman*
President, C. Dobell Inc.
Financial Consulting Firm

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel,
Lang Michener, Barristers & Solicitors
Law Firm

Annual Meeting

The annual meeting of Unitholders will be held at 10:00 am, June 19, 2002 at the offices of Davis & Company, 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia

Investor Relations Contact

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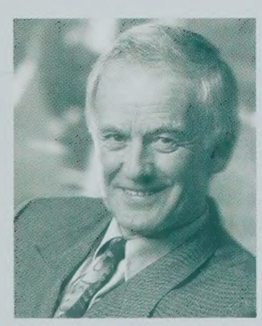
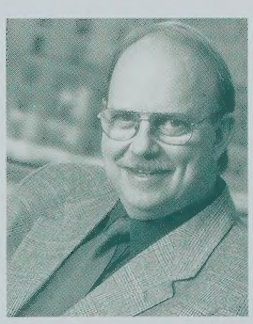
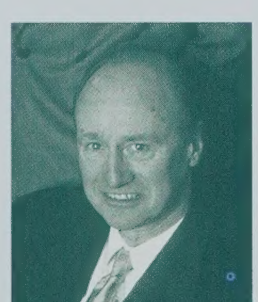

Evert Van Eerden


John Kitchen


Robert A. Miller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